



## **Exhibit III C – 2016 Financial Statements**



# **WAUKESHA WATER UTILITY**

An Enterprise Fund of the  
City of Waukesha, Wisconsin

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

# WAUKESHA WATER UTILITY

An Enterprise Fund of the City of Waukesha, Wisconsin

## TABLE OF CONTENTS

As of and for the Years Ended December 31, 2016 and 2015

---

Independent Auditors' Report	1 - 2
Required Supplementary Information	
Management's Discussion and Analysis	3 - 8
Financial Statements	
Statements of Net Position	9 - 10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12 - 13
Notes to Financial Statements	14 - 39
Required Supplementary Information	
Schedule of Funding Progress - Other Postemployment Benefits	40
Schedule of Proportionate Share of Net Pension Liability (Asset)	41
Schedule of Employer Contributions - Pension	41
Notes to Required Supplementary Information	42
Supplemental Information	
<b>Water Utility</b>	
Utility Plant	43
Operating Revenues and Expenses	44 - 45

## INDEPENDENT AUDITORS' REPORT

To the Utility Commission  
Waukesha Water Utility  
Waukesha, Wisconsin

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Waukesha Water Utility, an enterprise fund of the City of Waukesha, Wisconsin, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waukesha Water Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waukesha Water Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waukesha Water Utility as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Utility Commission  
Waukesha Water Utility

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Waukesha Water Utility enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Waukesha, Wisconsin, as of December 31, 2016 and 2015 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
April 11, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Years Ended December 31, 2016 and 2015*

The management of Waukesha Water Utility (Utility) offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility's financial performance during the years ending December 31, 2016 and 2015. You are invited to read this narrative in conjunction with the Utility's financial statements.

---

### FINANCIAL HIGHLIGHTS

---

- ❖ Total net position increased by \$3,349,000 to \$77,176,000 in 2016, an increase of 4.54%. Responsibility for this increase is shared by revenues in excess of expenses and capital contributions.
- ❖ Operating revenues, generated mostly by rate payers, decreased by \$23,000, or 0.2% in 2016. The commercial/industrial conservation program continues to contribute to the reduction in industrial consumption.
- ❖ Operating expenses decreased by \$804,000 or 15.48% in 2016. Prior years' expenses included amortization of Great Water Alliance application costs through 2012. This amortization was done under the direction of the PSCW and was fully amortized at the end of 2015.
- ❖ Year-end Cash and Equivalents increased by \$9,119,000 in 2016 due to two things; an increase in cash from operating activities and from a borrowing that was yet to be spent on capital related activity.

---

### OVERVIEW OF THE FINANCIAL STATEMENTS

---

The Utility is a self-supporting entity and an enterprise fund of the City of Waukesha (municipality). It provides water services to properties within the municipality and to certain areas outside the municipality. The Utility also provides metering and billing services for the City's Sewer Department.

The Utility is managed by a Commission. It operates under service rules and rates that are established by the PSCW. Accounting records for the Utility are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW and in accordance with the Governmental Accounting Standards Board (GASB).

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Utility. The financial statements also include notes that explain in more detail some of the information in the financial statements.

---

### REQUIRED FINANCIAL STATEMENTS

---

The financial statements of the Utility report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The *Statement of Net Position* includes all of the Utility's assets, deferred outflows, liabilities, and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility's user charges are sufficient.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Years Ended December 31, 2016 and 2015*

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

---

### UTILITY FINANCIAL ANALYSIS

---

An analysis of the Utility's financial position begins with a review of the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. These two statements report the Utility's net assets and changes therein. The Utility's net assets (the difference between assets, deferred outflows, liabilities, and deferred inflows) are key to measuring the financial health of the Utility. Over time, increases or decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that financial position could also be affected by other non-financial factors including economic conditions, population growth and new regulations. The Utility's overall financial position has improved for the years ended December 31, 2016 and 2015.

---

### NET POSITION

---

A summary of the Utility's *Statement of Net Position* is presented below in Table 1.

**Table 1**  
**Condensed Statement of Net Position**  
**2016, 2015, and 2014**  
**(000's)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v. 2015</u>		<u>2015 v. 2014</u>	
				Change		Change	
Current Assets	\$ 28,567	\$ 24,610	\$ 18,997	\$ 3,957	16.08 %	\$5,613	29.55 %
Net Capital Assets	92,484	80,918	75,526	11,566	14.29	\$5,392	7.14
Other Noncurrent Assets	<u>10,768</u>	<u>5,052</u>	<u>6,833</u>	<u>5,716</u>	<u>113.14</u>	<u>(1,781)</u>	<u>(26.06)</u>
Total Assets	131,819	110,580	101,356	21,239	19.21	9,224	9.10
Deferred Outflows of Resources	1,726	860	549	866	100.70	311	56.65
Long Term Debt Outstanding	45,579	29,308	23,466	16,271	55.52	5,842	24.90
Other Liabilities	<u>10,315</u>	<u>8,304</u>	<u>7,834</u>	<u>2,011</u>	<u>24.22</u>	<u>470</u>	<u>6.00</u>
Total Liabilities	55,894	37,612	31,300	18,282	48.61	6,312	20.17
Deferred Inflows of Resources	474	-	-	474	100.00		
Net Investment in Capital Assets	51,917	52,162	55,083	(245)	(0.47)	(2,921)	(5.30)
Restricted Assets	487	910	608	(423)	(46.48)	302	49.67
Unrestricted Assets	<u>24,773</u>	<u>20,756</u>	<u>14,914</u>	<u>4,017</u>	<u>19.35</u>	<u>5,842</u>	<u>39.17</u>
Total Net Position	<u>\$ 77,176</u>	<u>\$ 73,828</u>	<u>\$ 70,605</u>	<u>\$ 3,349</u>	<u>4.54 %</u>	<u>\$3,223</u>	<u>4.56 %</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Years Ended December 31, 2016 and 2015*

As shown in Table 1, total net position increased by \$3,349,000 to \$77,176,000 in 2016, an increase of 4.54%. Responsibility for this increase is shared by revenues in excess of expenses and capital contributions.

Total net position increased by \$3,223,000 to \$73,828,000 in 2015, an increase of 4.56%. Responsibility for this increase is shared by revenues in excess of expenses, capital contributions, and a change in accounting principle.

The restricted portion of the net position includes accounts that are limited by bond covenants.

### REVENUES, EXPENSES AND CHANGES IN NET POSITION

The specific nature or source of changes in net assets becomes more evident in the Utility's *Statements of Revenues, Expenses and Changes in Net Position* as shown in Table 2. This statement provides an indication of the Utility's financial health.

**Table 2**  
**Condensed Statement of Revenues, Expenses and Changes in Net Position**  
**2016, 2015, and 2014**  
**(000's)**

	2016	2015	2014	2016 v. 2015 Change		2015 v. 2014 Change	
Operating Revenues	\$ 11,212	\$ 11,235	\$ 11,014	(23)	(0.20) %	221	2.01 %
Non-operating Revenues	296	183	178	113	61.75	5	2.81
Total Revenues	11,508	11,418	11,192	90	0.79	226	2.02
Depreciation Expense	2,343	2,336	2,234	7	0.30	102	4.57
Other Operating Expense	4,391	5,195	5,513	(804)	(15.48)	(318)	(5.77)
Non-operating Expense	1,373	925	775	448	48.43	150	19.35
Total Expense	8,107	8,456	8,522	(349)	(4.13)	(66)	(0.77)
Income before Capital Contributions and Transfers	3,402	2,962	2,670	440	14.85	292	10.94
Capital Contributions	1,682	1,269	291	413	32.55	978	336.08
Capital Contributions - Municipal	38	73	1	(35)	(47.95)	72	7,200.00
Transfers - Tax Equivalent	(1,775)	(1,777)	(1,790)	(2)	(0.11)	(13)	(0.73)
Changes in Net Assets	3,348	2,527	1,172	821	32.49	1,355	115.61
Beginning Net Assets	73,828	70,605	69,433	3,223	4.56	1,172	1.69
Cumulative Effect - Change in Accounting Principle	-	696	-	(696)	(100.00)	696	100.00
Ending Net Assets	<u>\$ 77,176</u>	<u>\$ 73,828</u>	<u>\$ 70,605</u>	<u>3,348</u>	<u>4.53 %</u>	<u>3,223</u>	<u>4.56 %</u>

Operating revenues in 2016 were comparable to those in 2015 and only decreased by \$23,000. The commercial/industrial conservation program continues to contribute to the decrease in industrial consumption. Non-operating revenues increased in 2016 by \$113,000, or 61.75%. An increase in investment income is the main factor for the increase.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Years Ended December 31, 2016 and 2015*

Operating revenues in 2015 increased by \$221,000 or 2.01%. A rate increase granted by the PSCW effective April 24, 2015 is the main factor for the increase. The \$5,000 increase in non-operating revenues was because of an increase in investment income.

Depreciation expense in 2016 increased by \$7,000 with the addition of capital assets. Other operating expenses decreased by \$804,000 or 15.48%. Prior years' expenses included amortization of Great Water Alliance application costs through 2012. This amortization was done under the direction of the PSCW and was fully amortized at the end of 2015. Non-operating expenses increased 48.43% as a result of debt interest costs.

Depreciation expense in 2015 increased by \$102,000 with the addition of capital assets. Other operating expenses decreased by \$318,000 or 5.77% to a level consistent with normal operations; harsh winter weather conditions contributed to unusually higher expenses in 2014. Non-operating expenses increased 19.35% due to debt interest costs.

Capital contributions increased in 2016 by \$413,000 or 32.55% because of several developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City decreased \$2,000.

Capital contributions increased in 2015 by \$978,000 or 336.08% due to several developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City decreased \$13,000.

In 2016, there was no cumulative effect of a change in accounting principle.

The cumulative effect of a change in accounting principle increased net assets by \$696,000 in 2015. Municipalities contributing to pensions are now required to show the actuarial effect of funding this benefit within the financial statements.

---

### CASH FLOWS

---

The *Statement of Cash Flows*, illustrated in Table 3, reports the cash provided and used by operating activities, as well as other cash sources and uses derived from financing and investment activities.

**Table 3**  
**Condensed Statement of Cash Flows**  
**2016, 2015, and 2014**  
**(000's)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v. 2015</u>		<u>2015 v. 2014</u>	
				<u>Change</u>		<u>Change</u>	
Cash Flows From:							
Operating Activities	\$ 7,682	\$ 7,065	\$ 6,811	\$ 617	8.73 %	\$ 254	3.73 %
Paid to Municipality - Tax Equivalent	(1,777)	(1,790)	(1,692)	13	(0.73)	(98)	5.79
Capital and Related Financing Activities	3,076	(2,301)	33	5,377	(233.68)	(2,334)	(7,072.73)
Investing Activities	<u>137</u>	<u>47</u>	<u>34</u>	<u>90</u>	<u>191.49</u>	<u>13</u>	<u>38.24</u>
Net Change in Cash and Equivalents	9,119	3,021	5,186	6,098	201.85	(2,165)	(41.75)
Cash and Equivalents Beginning of Year	<u>21,476</u>	<u>18,455</u>	<u>13,269</u>	<u>3,021</u>	<u>16.37</u>	<u>5,186</u>	<u>39.08</u>
Cash and Equivalents End of Year	<u>\$ 30,595</u>	<u>\$ 21,476</u>	<u>\$ 18,455</u>	<u>\$ 9,119</u>	<u>42.46 %</u>	<u>\$ 3,021</u>	<u>16.37 %</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*Years Ended December 31, 2016 and 2015*

Year-end Cash and Equivalents increased by \$9,119,000 in 2016 due to two things; an increase in cash from operating activities and from a borrowing that was yet to be spent on capital related activity.

Year-end Cash and Equivalents increased by \$3,021,000 in 2015 due to cash produced from operating activities.

---

**CAPITAL ASSETS**

---

Table 4 summarizes the Utility's capital assets. Please refer to the *Notes to Financial Statements*, particularly the *Capital Assets* section of *Note 1 – Summary of Significant Accounting Policies* and *Note 5 – Changes in Capital Assets*, for further detail of the Utility's capital assets.

**Table 4**  
**Capital Assets**  
**2016, 2015, and 2014**  
**(000's)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v. 2015</u>		<u>2015 v. 2014</u>	
				Change		Change	
Land & Land Rights	\$ 566	\$ 565	\$ 1,001	\$ -	- %	\$ (436)	(43.56) %
Intangible	187	185	149	2	1.08	36	24.16
Source of Supply	2,592	2,592	2,592	-	-	-	-
Pumping	9,683	9,433	9,610	250	2.65	(177)	(1.84)
Water Treatment	5,234	5,214	5,214	20	0.38	-	-
Transmission and							
Distribution	95,669	85,116	78,211	10,553	12.40	6,905	8.83
General	5,858	5,805	5,841	53	0.91	(36)	(0.62)
Total Capital Assets	119,789	108,910	102,618	10,879	9.99	6,292	6.13
Accumulated Depreciation	(29,414)	(28,457)	(27,470)	(957)	3.36	(987)	3.59
Construction in Progress	2,109	465	378	1,644	353.55	87	23.02
Net Capital Assets	<u>\$92,484</u>	<u>\$80,918</u>	<u>\$75,526</u>	<u>\$11,566</u>	<u>14.29 %</u>	<u>\$5,392</u>	<u>7.14 %</u>

The Utility's capital assets increased by \$10.88 million, or 9.99% in 2016. Increases in developer contributions totaled \$1,682,000. The balance is due to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$1,398,000 in assets were retired.

The Utility's capital assets increased by \$6.29 million, or 6.13%, in 2015. Increases in developer contributions accounted for \$1,269,000. The balance is due to projects financed by the Utility and put into service (including those transferred out of construction in progress), while \$1.42 million in assets were retired.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Years Ended December 31, 2016 and 2015*

---

### **LONG-TERM DEBT**

---

The Utility had revenue bonds of \$2.46 million and \$3.15 million (excluding the Safe Drinking Water Loan) outstanding as of December 31, 2016 and 2015, respectively. These issues were for various construction projects that involved five wells, upgraded treatment facilities, and a larger tower. A Safe Drinking Water Loan was secured by a revenue bond in 2013 with an outstanding balance of \$978,000 as of December 31, 2016. This loan was used to finance a capital improvement project necessary to secure an alternate source of water. The Utility had General Obligation debt outstanding of \$42,560,000 in 2016 and \$18,980,000 in 2015. The debt originated from offerings issued in 2013, 2014, 2015, and 2016. The debt is funding capital replacements and Great Water Alliance improvements.

Moody's Investors Service, Inc. has assigned its municipal bond rating of "Aaa" to the Utility's most recent issue of revenue bonds. For further detail, please refer to *Note 6 – Long Term Obligations* in the *Notes for Financial Statements*.

---

### **ECONOMIC FACTORS AND FUTURE PLANNING**

---

The Utility's service area is located in southeast Wisconsin. Waukesha County is the third largest county in the State. The service area was experiencing a commercial and residential boom prior to the economic down turn in late 2008. The economy began to stabilize in 2012 and has continued to improve since.

The Utility maintains a five year financial plan that focuses on identifying and implementing improvements. This plan coordinates with the City of Waukesha's Master Plan. Rate structures are reviewed on a consistent basis to ensure that customers are provided with high quality water, in the amounts they need and at a fair price. A residential inclining rate structure has been implemented in order to promote conservation.

Declining water levels and water quality, coupled with future water demand, have forced Waukesha to spend many years investigating an alternative water source. Through this investigation, Waukesha and the WDNR determined that Lake Michigan water was the most sustainable public water supply source. The Great Lakes-St. Lawrence River Basin Water Resources Council agreed, and unanimously approved Waukesha's application to borrow water from Lake Michigan on June 21, 2016. This long term solution, known as the Great Water Alliance, will require an unprecedented investment in infrastructure over the next several years.

---

### **CONTACTING UTILITY'S FINANCIAL MANAGEMENT**

---

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, you may contact Donna Scholl, Administrative Services Manager, Waukesha Water Utility, 115 Delafield Street, Waukesha, Wisconsin 53188-3615, by phone at (262) 409-4420, or by email [dscholl@waukesha-water.com](mailto:dscholl@waukesha-water.com).

# WAUKESHA WATER UTILITY

## STATEMENTS OF NET POSITION As of December 31, 2016 and 2015

	<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>			
Cash and investments		\$ 11,356,851	\$ 10,873,017
Other special accounts		11,178,910	7,766,421
Restricted Assets			
Redemption account		515,932	602,741
Customer accounts receivable		3,318,615	3,236,989
Unbilled revenues		1,464,167	1,480,240
Other accounts receivable		22,653	16,512
Materials and supplies		479,913	423,329
Prepayments		140,746	130,614
Conservation programs		<u>89,098</u>	<u>80,654</u>
Total Current Assets		<u>28,566,885</u>	<u>24,610,517</u>
<b>NONCURRENT ASSETS</b>			
Restricted Assets			
Reserve account		475,119	654,699
Capital improvement account		7,068,456	1,579,193
Net pension asset		-	344,769
Other Assets			
Preliminary survey and investigation		2,789,466	2,038,515
Property held for future use		435,090	435,090
Capital Assets			
Plant in service		119,788,648	108,910,420
Accumulated depreciation		(29,413,847)	(28,457,189)
Construction work in progress		<u>2,109,050</u>	<u>464,867</u>
Total Noncurrent Assets		<u>103,251,982</u>	<u>85,970,364</u>
Total Assets		<u>131,818,867</u>	<u>110,580,881</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized loss on advance refunding		455,746	502,489
Deferred outflows related to pension		<u>1,270,057</u>	<u>357,207</u>
Total Deferred Outflows of Resources		<u>1,725,803</u>	<u>859,696</u>

	<b>LIABILITIES</b>	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		\$ 782,210	\$ 202,037
Due to municipality		1,774,814	1,776,510
Due to sewer utility		2,425,613	2,183,370
Customer deposits		93,325	136,665
Accrued wages		98,067	82,314
Accrued interest		408,633	249,545
Accrued vacation leave		227,813	79,151
Current portion of general obligation debt		-	100,000
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		419,187	738,258
Accrued interest		<u>29,418</u>	<u>36,904</u>
Total Current Liabilities		<u>6,259,080</u>	<u>5,584,754</u>
<b>NONCURRENT LIABILITIES</b>			
General obligation debt		42,560,000	25,870,000
Revenue bonds		3,019,042	3,438,229
Unamortized premium on debt		2,568,459	1,346,491
Customer advances for construction		91,288	329,339
Other post-employment benefits		1,171,210	1,043,616
Net pension liability		<u>225,396</u>	<u>-</u>
Total Noncurrent Liabilities		<u>49,635,395</u>	<u>32,027,675</u>
 Total Liabilities		<u>55,894,475</u>	<u>37,612,429</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension		<u>474,344</u>	<u>-</u>
 <b>NET POSITION</b>			
Net investment in capital assets		51,916,484	52,161,501
Restricted for:			
Debt service		486,514	565,837
Pension		-	344,769
Unrestricted		<u>24,772,853</u>	<u>20,756,041</u>
 TOTAL NET POSITION		<u>\$ 77,175,851</u>	<u>\$ 73,828,148</u>

See accompanying notes to the financial statements.

# WAUKESHA WATER UTILITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Sales of water	\$ 10,713,114	\$ 10,754,811
Other	<u>499,267</u>	<u>480,302</u>
Total Operating Revenues	<u>11,212,381</u>	<u>11,235,113</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	4,390,791	5,195,475
Depreciation	<u>2,342,983</u>	<u>2,335,822</u>
Total Operating Expenses	<u>6,733,774</u>	<u>7,531,297</u>
<b>OPERATING INCOME</b>	<u>4,478,607</u>	<u>3,703,816</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	137,378	46,718
Income from merchandising and jobbing	2,115	4,300
Other nonoperating revenues	15,839	8,742
Interest expense	(1,368,016)	(924,761)
Interest charged to construction	140,649	123,392
Amortization of premium	219,432	152,544
Amortization of loss on advance refunding	(46,743)	(46,743)
Debt issuance costs	<u>(177,218)</u>	<u>(106,391)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,076,564)</u>	<u>(742,199)</u>
Income Before Contributions and Transfers	3,402,043	2,961,617
<b>CAPITAL CONTRIBUTIONS</b>	1,682,182	1,268,860
<b>CAPITAL CONTRIBUTIONS - MUNICIPAL</b>	38,292	72,840
<b>TRANSFERS - TAX EQUIVALENT</b>	<u>(1,774,814)</u>	<u>(1,776,510)</u>
<b>CHANGE IN NET POSITION</b>	3,347,703	2,526,807
NET POSITION - Beginning of Year	73,828,148	70,605,384
Cumulative effect of a change in accounting principle	<u>-</u>	<u>695,957</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 77,175,851</u></u>	<u><u>\$ 73,828,148</u></u>

See accompanying notes to the financial statements.

# WAUKESHA WATER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 11,340,846	\$ 11,190,129
Paid to suppliers for goods and services	(1,928,039)	(2,469,192)
Paid to employees for operating payroll	(1,730,357)	(1,655,609)
Net Cash Flows From Operating Activities	<u>7,682,450</u>	<u>7,065,328</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Paid to municipality for tax equivalent	<u>(1,776,510)</u>	<u>(1,790,232)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(14,089,743)	(8,730,437)
Cost of removal of capital assets	(232,617)	(128,755)
Salvage on retirement of plant	25,040	23,419
Capital contributions received	1,473,689	1,373,227
Premium on new debt	1,441,400	536,080
Debt retired	(7,828,258)	(6,787,347)
Interest paid	(1,216,414)	(885,421)
Proceeds from debt issue	23,680,000	12,405,000
Debt issuance costs	(177,218)	(106,391)
Net Cash Flows From Capital and Related Financing Activities	<u>3,075,879</u>	<u>(2,300,625)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	<u>137,378</u>	<u>46,718</u>
<b>Net Change in Cash and Cash Equivalents</b>	9,119,197	3,021,189
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>21,476,071</u>	<u>18,454,882</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 30,595,268</u></u>	<u><u>\$ 21,476,071</u></u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Developer financed additions to utility plant	\$ 2,593	\$ 35,717
Interest charged to construction	<u>\$ 140,649</u>	<u>\$ 123,392</u>



	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>		
<b>FLows FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 4,478,607	\$ 3,703,816
Nonoperating revenue (expense)	17,954	13,042
Noncash items in operating income		
Depreciation	2,342,983	2,335,822
Depreciation charged to clearing and other utilities	219,404	179,132
Other post-employment benefit obligation	127,594	109,535
Amortization of preliminary survey and investigation	-	945,706
Changes in assets, deferred outflows and liabilities		
Customer accounts receivable	(65,553)	(213,712)
Materials and supplies	(56,584)	(76,100)
Prepayments	(10,132)	(3,406)
Pension related deferrals and liabilities	131,659	(6,019)
Conservation programs	(8,444)	(30,781)
Accounts payable	141,644	(88,210)
Customer deposits	(43,340)	(23,446)
Other current liabilities	164,415	23,193
Due to sewer utility	<u>242,243</u>	<u>196,756</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 7,682,450</u>	<u>\$ 7,065,328</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO</b>		
<b>STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 11,356,851	\$ 10,873,017
Redemption account	515,932	602,741
Reserve account	475,119	654,699
Capital improvement account	7,068,456	1,579,193
Other special accounts	<u>11,178,910</u>	<u>7,766,421</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 30,595,268</u>	<u>\$ 21,476,071</u>

See accompanying notes to the financial statements.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

---

The financial statements of Waukesha Water Utility (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utility are described below.

#### **REPORTING ENTITY**

The utility is a separate enterprise fund of the City of Waukesha (municipality). The utility is managed by a utility commission. The utility provides water service to properties within the municipality.

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW).

#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The utility is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The utility adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 12.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

##### ***Deposits and Investments***

For purposes of the statement of cash flows, cash, and cash equivalents have original maturities of three months or less from the date of acquisition.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)***

Investment of utility funds is restricted by state statutes. Investments are limited to:

- > Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- > Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- > Bonds or securities issued or guaranteed by the federal government.
- > The local government investment pool.
- > Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- > Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
- > Repurchase agreements with public depositories, with certain conditions.

The utility has adopted an investment policy. That policy follows the state statute for allowable investments.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

#### ***Receivables/Payables***

Transactions between the utility and other funds of the municipality that are representative of lending/borrowing arrangements outstanding at year end are referred to as advances to/from other funds. All other outstanding balances between the utility and other funds of the municipality are reported as due to/from other funds.

The utility has the right under Wisconsin statutes to place delinquent water bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

#### ***Materials and Supplies***

Materials and supplies are generally used for construction, operation, and maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

#### ***Restricted Assets***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)***

##### ***Conservation Programs***

The balance represents the net of amounts spent on PSCW approved programs less the amount authorized in customer rates. The difference is carried from year to year and will be factored into future water rate cases.

##### ***Other Special Accounts***

This account consists of investments set aside for various capital projects and payment of the utility tax equivalent as follows:

	<u>2016</u>	<u>2015</u>
Debt service	\$ 770,181	\$ 742,429
Equipment replacement account	8,050,611	5,261,451
Tax equivalent reserve	<u>2,358,118</u>	<u>1,762,541</u>
Totals	<u>\$ 11,178,910</u>	<u>\$ 7,766,421</u>

##### ***Prepayments***

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

##### ***Preliminary Survey and Investigation***

The balance represents initial project engineering costs related to utility plant construction. The balance will be capitalized upon commencement of the project or is amortized over a useful life established by the PSCW. The utility amortized \$945,706 in 2015.

##### ***Property Held for Future Use***

This balance represents the value of land not currently in service but held for future use in operations.

##### ***Capital Assets***

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$3,500 and an estimated useful life in excess of three years.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)***

##### ***Capital Assets (cont.)***

Capital assets of the utility are recorded at cost or the estimated acquisition value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

	<u>Years</u>
Water Plant	
Source of supply	34 - 55
Pumping	23 - 31
Water treatment	30 - 31
Transmission and distribution	18 - 77
General	4 - 34

##### ***Pensions***

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

##### ***Deferred Outflow of Resources***

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

##### ***Accrued Vacation Leave***

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utility.

##### ***Other Postemployment Benefits***

The utility provides postemployment health insurance benefits to all eligible employees. Eligibility is based on hire date. The benefits are based on contractual agreements with employee groups, local ordinances, or employee benefit policies. See Note 9.

##### ***Customer Advances for Construction***

The balance represents fees collected for future capital improvements. The fees may be refundable based on rules filed with the PSCW or statutory requirements.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)***

##### ***Customer Deposits***

This account represents amounts deposited with the utilities by customers as security for payments of bills.

##### ***Long-Term Obligations***

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

##### ***Deferred Inflows of Resources***

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

#### ***REVENUES AND EXPENSES***

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### ***Charges for Services***

Billings are rendered and recorded monthly based on metered usage. The utility does accrue revenues beyond billing dates.

Current water rates were approved by the PSCW effective April 24, 2015.

##### ***Capital Contributions***

Cash and capital assets are contributed to the utility from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses, and changes in net position.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### ***EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS***

GASB has approved GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14, Statement No. 81, *Irrevocable Split-Interest Agreements*, and Statement No. 82, *Pension Issues*, an amendment of GASB Statements No. 67, No. 68, and No. 73. When they become effective, application of these standards may restate portions of these financial statements.

#### ***COMPARATIVE DATA***

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

### NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		
	2016	2015	Risks
Checking, savings, and sweep	\$ 2,544,705	\$ 2,314,067	Custodial credit risk
Local Government Investment Pool	28,048,627	19,160,930	Credit risk
Petty cash	1,936	1,074	N/A
Totals	<u>\$ 30,595,268</u>	<u>\$ 21,476,071</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

The utility may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the SDGF apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

In addition, the utility has collateral or depository insurance agreements in the amount of \$5,489,481 and \$5,494,036 at December 31, 2016 and 2015 respectively.



# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

#### *Custodial Credit Risk*

#### **Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility.

The utility maintains certain deposits in the same institutions as the municipality. The following is a summary of the utility's total deposit balances at these institutions.

	2016		2015	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Waukesha State Bank	\$ 2,536,720	\$ 1,997,580	\$ 1,748,756	\$ 1,601,240
Chase Bank	547,125	547,125	579,257	712,827
Totals	<u>\$ 3,083,845</u>	<u>\$ 2,544,705</u>	<u>\$ 2,328,013</u>	<u>\$ 2,314,067</u>

#### *Credit Risk*

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The utility held investments in the Local Government Investment Pool which is an external pool that is not rated. The utility's investment policy does not address this risk.

### NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2016 and 2015:

Due To	Due From	2016		2015	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,774,814	Tax equivalent	\$ 1,776,510	Tax equivalent
Sewer Utility	Water Utility	2,425,613	Amounts billed for sewer utility	2,183,370	Amounts billed for sewer utility

The following is a schedule of transfer balances for the years ending December 31, 2016 and 2015:

To	From	2016		2015	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,774,814	Tax equivalent	\$ 1,776,510	Tax equivalent

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 4 - RESTRICTED ASSETS

#### *Restricted Accounts*

Certain proceeds of the utility's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets:

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Capital Improvement - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

#### *Net Pension Asset*

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

#### *Restricted Net Position*

The following calculation supports the amount of restricted net position:

	2016	2015
Restricted Assets		
Redemption account	\$ 515,932	\$ 602,741
Reserve account	475,119	654,699
Capital improvement account	7,068,456	1,579,193
Net pension asset	-	344,769
Total Restricted Assets	<u>8,059,507</u>	<u>3,181,402</u>
Less: Restricted Assets Not Funded by Revenues		
Reserve from borrowing	(475,119)	(654,699)
Capital improvement fund (construction account)	<u>(7,068,456)</u>	<u>(1,579,193)</u>
Total Restricted Assets Not Funded by Revenues	<u>(7,543,575)</u>	<u>(2,233,892)</u>
Current Liabilities Payable From Restricted Assets	<u>(29,418)</u>	<u>(36,904)</u>
Total Restricted Net Position as Calculated	<u>\$ 486,514</u>	<u>\$ 910,606</u>

The purpose of the restricted net position is as follows:

	2016	2015
Debt service	\$ 486,514	\$ 565,837
Pension	<u>-</u>	<u>344,769</u>
Totals	<u>\$ 486,514</u>	<u>\$ 910,606</u>

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	184,896	2,592	-	187,488
Total Capital Assets Not Being Depreciated	750,454	2,592	-	753,046
Capital assets being depreciated				
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,433,188	287,802	37,750	9,683,240
Water treatment	5,213,659	20,358	-	5,234,017
Transmission and distribution	85,116,584	11,236,351	684,136	95,668,799
General	5,804,762	729,277	676,266	5,857,773
Total Capital Assets Being Depreciated	108,159,966	12,273,788	1,398,152	119,035,602
Total Capital Assets	108,910,420	12,276,380	1,398,152	119,788,648
Less: Accumulated depreciation				
Source of supply	(1,495,967)	(63,236)	-	(1,559,203)
Pumping	(2,571,455)	(365,846)	37,750	(2,899,551)
Water treatment	(1,717,533)	(209,117)	-	(1,926,650)
Transmission and distribution	(18,611,483)	(1,653,783)	825,923	(19,439,343)
General	(4,060,751)	(295,445)	767,096	(3,589,100)
Total Accumulated Depreciation	(28,457,189)	(2,587,427)	1,630,769	(29,413,847)
Construction in progress	464,867	2,106,796	462,613	2,109,050
Net Capital Assets	\$ 80,918,098			\$ 92,483,851

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 1,000,647	\$ -	\$ 435,089	\$ 565,558
Intangible	149,178	35,718	-	184,896
Total Capital Assets Not Being Depreciated	1,149,825	35,718	435,089	750,454
Capital assets being depreciated				
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,609,607	503,132	679,551	9,433,188
Water treatment	5,213,659	-	-	5,213,659
Transmission and distribution	78,211,342	7,326,344	421,102	85,116,584
General	5,841,289	285,344	321,871	5,804,762
Total Capital Assets Being Depreciated	101,467,670	8,114,820	1,422,524	108,159,966
Total Capital Assets	102,617,495	8,150,538	1,857,613	108,910,420
Less: Accumulated depreciation				
Source of supply	(1,432,731)	(63,236)	-	(1,495,967)
Pumping	(2,899,275)	(365,810)	693,630	(2,571,455)
Water treatment	(1,509,028)	(208,505)	-	(1,717,533)
Transmission and distribution	(17,626,415)	(1,520,846)	535,778	(18,611,483)
General	(4,002,646)	(379,976)	321,871	(4,060,751)
Total Accumulated Depreciation	(27,470,095)	(2,538,373)	1,551,279	(28,457,189)
Construction in progress	378,184	86,683	-	464,867
Net Capital Assets	\$ 75,525,584			\$ 80,918,098

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 6 - LONG-TERM OBLIGATIONS

#### *Revenue Bonds*

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/16
04/15/2006	Capital Improvements	10/01/2026	4.00-5.00%	\$ 7,865,000	\$ -
04/22/2008	Capital Improvements	10/01/2022	3.00-4.375	4,945,000	2,460,000
05/07/2013	Capital Improvements	05/01/2033	1.925	1,117,601	978,229

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2017	\$ 419,187	\$ 123,476	\$ 542,663
2018	435,134	106,795	541,929
2019	451,099	89,458	540,557
2020	467,083	71,465	538,548
2021	488,085	52,816	540,901
2022-2026	736,155	76,136	812,291
2027-2031	309,278	27,836	337,114
2032-2033	<u>132,208</u>	<u>2,558</u>	<u>134,766</u>
Totals	<u>\$ 3,438,229</u>	<u>\$ 550,540</u>	<u>\$ 3,988,769</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2016 and 2015 were \$891,997 and \$890,756, respectively. Total customer gross revenues as defined for the same periods were \$11,351,874 and \$11,286,131. Annual principal and interest payments are expected to require 2% of gross revenues on average.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

#### *General Obligation Debt*

The following general obligation notes have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/16</u>
05/07/2013	2013 G.O. Refunding Bonds	10/01/2032	2.00 - 4.00%	\$ 10,085,000	\$ 8,865,000
04/08/2014	2014 G.O. Refunding Bonds	10/01/2033	2.00 - 4.25	4,600,000	4,600,000
05/12/2015	2015 G.O. Refunding Bonds	10/01/2034	2.00 - 4.00	5,415,000	5,415,000
05/12/2015	Note Anticipation Notes - capital improvements	07/01/2016	2.00	6,990,000	-
5/10/2016	2016 G.O. Refunding Bonds	10/01/2035	3.00 - 4.00	6,280,000	6,280,000
5/10/2016	Note Anticipation Notes - capital improvements	05/01/2021	3.00	17,400,000	17,400,000

The 2015 note anticipation notes were refinanced in 2016.

General obligation notes debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 1,527,259	\$ 1,527,259
2018	225,000	1,435,629	1,660,629
2019	995,000	1,431,129	2,426,129
2020	1,280,000	1,413,754	2,693,754
2021	19,035,000	1,122,294	20,157,294
2022-2026	9,115,000	3,382,919	12,497,919
2027-2031	7,435,000	1,761,619	9,196,619
2032-2035	<u>4,475,000</u>	<u>373,124</u>	<u>4,848,124</u>
Totals	<u>\$ 42,560,000</u>	<u>\$ 12,447,727</u>	<u>\$ 55,007,727</u>

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

#### *Long-Term Obligations Summary*

Long-term obligation activity for the year ended December 31, 2016 is as follows:

	<u>1/1/16 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/16 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 4,176,487	\$ -	\$ 738,258	\$ 3,438,229	\$ 419,187
General obligation debt	25,970,000	23,680,000	7,090,000	42,560,000	-
Customer advances for construction	329,339	91,288	329,339	91,288	-
Unamortized premium on debt	1,346,491	1,441,400	219,432	2,568,459	-
Other post-employment benefits	1,043,616	251,041	123,447	1,171,210	-
Net pension liability	-	225,396	-	225,396	-
Totals	<u>\$ 32,865,933</u>	<u>\$ 25,689,125</u>	<u>\$ 8,500,476</u>	<u>\$ 50,054,582</u>	<u>\$ 419,187</u>

Long-term obligation activity for the year ended December 31, 2015 is as follows:

	<u>1/1/15 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 4,883,834	\$ -	\$ 707,347	\$ 4,176,487	\$ 738,258
General obligation debt	19,645,000	12,405,000	6,080,000	25,970,000	100,000
Customer advances for construction	260,647	329,339	260,647	329,339	-
Unamortized premium on debt	962,955	536,080	152,544	1,346,491	-
Other post-employment benefits	934,081	246,982	137,447	1,043,616	-
Totals	<u>\$ 26,686,517</u>	<u>\$ 13,517,401</u>	<u>\$ 7,337,985</u>	<u>\$ 32,865,933</u>	<u>\$ 838,258</u>

#### *Bond Covenant Disclosures*

The following information is provided in compliance with the resolution creating the revenue bonds:

#### *Insurance*

The utility is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.



# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

#### ***Bond Covenant Disclosures*** (cont.)

The utility is covered under the following insurance policies at December 31, 2016:

Type	Coverage	Expiration
General Liability	\$ 10,000,000 Each occurrence	7/1/17
Automobile	10,000,000	7/1/17

#### ***Debt Coverage***

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.25 times the subsequent year debt service. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2016 and 2015 as follows:

	2016	2015
Operating revenues	\$ 11,212,381	\$ 11,235,113
Investment income	137,378	46,718
Income from merchandising and jobbing	2,115	4,300
Less: Operation and maintenance expenses	<u>(4,390,791)</u>	<u>(5,195,475)</u>
Net Defined Earnings	<u>\$ 6,961,083</u>	<u>\$ 6,090,656</u>
Minimum Required Earnings per Resolution:		
2006 revenue bonds subsequent year debt service	\$ -	\$ 349,238
2008 revenue bonds subsequent year debt service	475,119	475,206
2013 SDWL revenue bonds subsequent year debt service	<u>67,545</u>	<u>67,554</u>
Subtotal	542,664	891,998
Coverage factor	<u>1.25</u>	<u>1.25</u>
Minimum Required Earnings	<u>\$ 678,330</u>	<u>\$ 1,114,998</u>
Actual Debt Coverage	<u>12.83</u>	<u>6.83</u>

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

---

#### *Bond Covenant Disclosures (cont.)*

##### *Number of Customers and Billed Volumes - Water*

The utility has the following number of customers and billed volumes for 2016 and 2015:

	Customers		Sales (000 gals)	
	2016	2015	2016	2015
Residential	17,694	17,572	920,847	937,774
Multifamily residential	951	952	391,968	397,554
Commercial	1,256	1,240	371,322	376,763
Industrial	145	146	237,070	262,477
Public Authority	118	119	83,041	99,076
Totals	<u>20,164</u>	<u>20,029</u>	<u>2,004,248</u>	<u>2,073,644</u>

---

### NOTE 7 - NET POSITION

---

GASB No. 34 requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the utility's policy to use restricted resources first, then unrestricted resources as they are needed.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 7 - NET POSITION (cont.)

---

The following calculation supports the net investment in capital assets:

	<u>2016</u>	<u>2015</u>
Construction work in progress	\$ 2,109,050	\$ 464,867
Plant in service	119,788,648	108,910,420
Accumulated depreciation	<u>(29,413,847)</u>	<u>(28,457,189)</u>
Sub-Totals	<u>92,483,851</u>	<u>80,918,098</u>
Less: Capital related debt		
Current portion of capital related long-term debt	419,187	838,258
Long-term portion of capital related long-term debt	45,579,042	29,308,229
Unamortized loss on refunding	(455,746)	(502,489)
Unamortized debt premium	<u>2,568,459</u>	<u>1,346,491</u>
Sub-Totals	<u>48,110,942</u>	<u>30,990,489</u>
Add: Unspent debt proceeds		
Capital improvement account	7,068,456	1,579,193
Reserve from borrowing	<u>475,119</u>	<u>654,699</u>
Sub-Totals	<u>7,543,575</u>	<u>2,233,892</u>
Total Net Investment in Capital Assets	<u>\$ 51,916,484</u>	<u>\$ 52,161,501</u>

---

### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

---

The utility implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015.

#### **General Information About the Pension Plan**

**Plan description.** The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be bound at <http://etf.wi.gov/publications/cafr.htm>.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

---

**Vesting.** For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

**Benefits provided.** Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

**Post-Retirement adjustments.** The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2006	0.8%	3%
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

---

*Contributions.* Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

The WRS recognized \$134,622 and \$136,987 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31 are:

	2016		2015	
	Employee	Employer	Employee	Employer
General (including teachers)	6.6%	6.6%	6.8%	6.8%
Executives & Elected Officials	6.6%	6.6%	7.7%	7.7%
Protective with Social Security	6.6%	9.4%	6.8%	9.5%
Protective without Social Security	6.6%	13.2%	6.8%	13.1%

#### ***Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2016, the utility reported a liability (asset) of \$225,396 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the City of Waukesha's proportion was 0.33039%, which was a decrease of .00020% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, and 2015 the utility recognized pension expense of \$274,814 and \$128,603.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

At December 31, 2016, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38,691	\$ (474,344)
Changes in assumption	924,708	-
Net differences between project and actual earnings on pension plan	157,698	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,655	-
Employer contributions subsequent to the measurement date	<u>143,305</u>	<u>-</u>
Total	<u>\$ 1,270,057</u>	<u>\$ (474,344)</u>

At December 31, 2015, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 49,981	\$ -
Changes in assumption	-	-
Net differences between project and actual earnings on pension plan	166,954	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,650	-
Employer contributions subsequent to the measurement date	<u>134,622</u>	<u>-</u>
Total	<u>\$ 357,207</u>	<u>\$ -</u>

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the subsequent year ended December 31, 2017. \$143,305 is reported for the water utility. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 292,680	\$ 114,792
2018	292,680	114,792
2019	292,680	114,792
2020	243,613	114,792
2021	<u>5,099</u>	<u>15,176</u>
Total	<u>\$ 1,126,752</u>	<u>\$ 474,344</u>

**Actuarial assumptions.** The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2014
Measurement date of net pension liability (asset)	December 31, 2015
Actuarial cost method	Entry age
Asset valuation method	Fair market value
Long-term expected rate of return	7.2%
Discount rate	7.2%
Salary increases	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Postretirement adjustments	2.1%

*\* No postretirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the postretirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

*Long-term expected Return on Plan Assets.* The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Core Fund Asset Class</u>	<u>Long-term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	4.7%	23.0%
International Equities	5.6	22.0
Fixed Income	1.6	37.0
Inflation Sensitive Assets	1.4	20.0
Real Estate	3.6	7.0
Private Equity/Debt	6.5	7.0
Multi-Asset	<u>3.8</u>	<u>4.0</u>
Total Core Fund	<u>4.5%</u>	<u>120.0%</u>

  

<u>Variable Fund Asset Class</u>	<u>Long-term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	4.7%	70.0%
International Equities	<u>5.6</u>	<u>30.0</u>
Total Variable Fund	<u>5.0%</u>	<u>100.0%</u>

*Single Discount rate.* A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

*Sensitivity of the utility's proportionate share of the net pension liability (asset) to changes in the discount rate.* The following presents the utility's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the utility's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate.

The sensitivity analysis as of December 31, 2016 follows:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 1,580,936	\$ 225,396	\$ (833,304)

The sensitivity analysis as of December 31, 2015 follows:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 972,653	\$ (344,769)	\$ (1,385,216)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/Publications/cafr.htm>.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

### NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

#### *Health Care Benefits*

Plan Description – The utility offers postemployment medical benefits for retirees and their dependents that retired with 20 years of service and were hired and were on the payroll as of January 1, 1994. The portion of the premiums paid by the utility will be in accordance with the utility policy language governing premium payment in effect for active employees. Employees hired after January 1, 1994 can choose to stay on the utility's policy on their own expense until they reached age 65. The current benefit structure is determined by the commission through contract negotiations.

Annual OPEB Cost and Net OPEB Obligation – The annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represent a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the component of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB Obligation.

	2016	2015
Annual required contribution	\$ 251,041	\$ 247,092
Interest on net OPEB obligation	42,348	37,363
Adjustment to annual required contribution	<u>(53,646)</u>	<u>(45,571)</u>
Annual OPEB cost	239,743	238,884
Contributions made	<u>(112,149)</u>	<u>(129,349)</u>
Increase in net OPEB obligation	127,594	109,535
Net OPEB Obligation - Beginning of Year	<u>1,043,616</u>	<u>934,081</u>
Net OPEB Obligation - End of Year	<u><u>\$ 1,171,210</u></u>	<u><u>\$ 1,043,616</u></u>

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
2016	\$ 239,743	47%	\$ 1,171,210
2015	238,884	54	1,043,616
2014	261,683	52	934,081

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

---

#### *Health Care Benefits* (cont.)

The funded status of the plan as of December 31, 2016, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 3,593,074
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 3,593,074</u></u>
Funded ratio (actuarial value of plan assets/AAL)	-%
Covered payroll (active plan members)	\$ 694,228
UAAL as a percentage of covered payroll	518%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions – Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit method was used in the 2016 actuarial valuation. The actuarial assumptions included a rate of 4% to discount expected liabilities of the valuation date. The initial healthcare trend rate for 2016 was 1.8%, for 2017 and 2018 was 7.5%, after which the healthcare trend rates decreases by 0.5% every two years down to 5.5%. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The initial amortization period was 30 years.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

---

From time to time, the utility is party to various claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings, except as noted, will have a material adverse effect on the utility's financial position or results of operation.

On April 12, 1992, the state of Wisconsin commenced a legal action against the utility entitled State of Wisconsin, Department of Natural Resources vs. City of Waukesha Water Utility. Case No. 91-CV-1027 Circuit Court, Waukesha County, Wisconsin. case number 92-2530, Court of Appeals and Supreme Court of the State of Wisconsin. In that case the State has requested judgment against the utility for (1) an injunction requiring the utility to bring its water supply system into compliance with Wisconsin Administrative Code No 109.50(1); (2) the forfeitures provided for in sections 144.99 Stats., for past violations of Wisconsin Administrative Code Sec. NR 109.50; (3) a penalty assessment pursuant to Sect. 165.87(2) (Stats.).

Although the Federal legislation underpinning EPA regulations of radionuclides has been renewed, the EPA has examined the 1996 amendments to the Safe Drinking Water Act and taken the position establishing the contaminant level (MCL) of 5 pCi/L of radium in drinking water for Ra 226 and Ra 228, combined. The EPA conducted a new rulemaking proceeding and published a Notice of Data Availability and concluded the rulemaking in 2000.

In December 2000, the EPA finalized its rule for radium 226 and 228. In response to this rule, the City of Waukesha, doing business as the City of Waukesha Water Utility, petitioned the United States Court of Appeals, District of Columbia Circuit, in Washington, D.C. to review the rule promulgated by the EPA. The case City of Waukesha, et al. v. EPA, 01-1028, was heard on November 20, 2002. On February 25, 2003 the United States Court of Appeals ruled in favor of the EPA. As such, the municipality terminated the legal process and began negotiation with the Wisconsin Department of Natural Resources (WDNR) to develop a consent order/compliance agreement to bring the water supply into compliance with the radium standard. The municipality entered into a consent order/compliance agreement with the WDNR on December 19, 2003, and immediately began working towards compliance.

The agreement required the utility to develop new shallow wells, install treatment at some of the existing wells and blend the non-compliant water with the compliant water to bring the water supply into compliance with the radium standards. The cost of the improvements was approximately thirteen million five hundred thousand dollars (\$13,500,000). The utility is balancing the radium compliance projects with the other projects that will become part of the long term water supply strategy.

On September 22, 2008 the city of Waukesha was referred to the Department of Justice for Alleged Violations of Consent Order #2003-SEEE-107, by not meeting the December 8, 2006 timeline for providing drinking water that meets the Safe Drinking Water Standards for Radium. The Waukesha Water Utility worked with its legal counsel and the City of Waukesha Attorney to negotiate a settlement with the Department of Justice.

A settlement was successfully negotiated and was filed with the Clerk of Circuit Court in Waukesha County on March 30, 2009. The agreement required the City of Waukesha Water Utility to pay a judgment comprised of forfeitures and fees in the amount of fifty-five thousand (\$55,000). It also recognized the efforts the utility made in regards to capital projects and water conservation. In addition, the utility is allowed to operate under strict operating conditions until June 30, 2018.

At that date, the city must be in complete compliance with all federal and state drinking water radionuclide standards which require that the radionuclide-compliant water can be provided in the event of failure of the system's largest well. This may be accomplished by some combination of obtaining a new source of

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

---

### NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)

---

compliant water and by treating for radionuclide-removal and/or new sources of water. If the city fails to meet the strict operating guidelines before final compliance is accomplished, the city will be required to discontinue the supply of non-radionuclide-compliant water to the distribution system and shall meet state and federal radionuclide standards within three (3) years of such failure.

As a solution to the radionuclide issue, the City of Waukesha is in the process of developing a new water supply. As a result of the investigation of water supply alternatives, the City of Waukesha submitted an Application for Great Lakes Water with the Wisconsin Department of Natural Resources WDNR. This application was updated in October 2013.

In January, 2016 the WDNR concluded that Waukesha has no reasonable water supply alternative and qualifies for water under the Great Lakes Compact. It submitted the City of Waukesha's proposal to borrow Lake Michigan water to the governors and premiers of the other Great Lakes states and provinces.

On June 21, 2016 the Great Lakes-St. Lawrence River Basin Water Resources Council approved Waukesha's application to secure water from Lake Michigan.

On August 19, 2016 Great Lakes and St. Lawrence Cities Initiative submitted a request for a hearing and Compact Council consideration of their Final Decision in the matter of Application by the City of Waukesha, Wisconsin for a diversion of Great Lakes water.

In 2016, the utility hired a Program Manager to begin working on permitting and design. A Construction Audit firm was hired to review the resulting financial transactions.

---

### NOTE 11 - SUBSEQUENT EVENTS

---

The utility evaluated subsequent events through April 11, 2017, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

---

### NOTE 12 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

---

The utility adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in net position at December 31, 2015 as follows:

Net pension liability (asset) January 1, 2014	\$ 558,970
Deferred outflows January 1, 2014	<u>136,987</u>
Cumulative Effect of a Change in Accounting Principle	<u>\$ 695,957</u>

Additional information required for retroactive implementation was not provided by the pension plan.

## REQUIRED SUPPLEMENTARY INFORMATION

# WAUKESHA WATER UTILITY

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS For the Year Ended December 31, 2016

Fiscal Year-End Date	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2016	1/1/2015	\$	- \$ 3,593,074	\$ 3,593,074	0%	\$ 694,228	518%
12/31/2015	1/1/2015	-	3,593,074	3,593,074	0%	1,875,452	192%
12/31/2014	1/1/2013	-	3,971,519	3,971,519	0%	1,956,957	203%
12/31/2013	1/1/2013	-	3,971,519	3,971,519	0%	1,983,988	200%
12/31/2012	1/1/2011	-	4,044,049	4,044,049	0%	1,993,125	203%
12/31/2011	1/1/2011	-	4,044,049	4,044,049	0%	1,918,375	211%

See accompanying notes to required supplementary information and independent auditors' report.

## WAUKESHA WATER UTILITY

### SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) Wisconsin Retirement System Last 10 Fiscal Years\*

*Changes of benefit terms:* There were no changes of benefit terms for any participating employer in WRS. The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

	2015	2016
City of Waukesha's proportion of the net pension liability (asset)	0.33058285%	0.33038575%
Waukesha Water Utility's proportionate share of the net pension liability (asset)	\$ (344,769)	\$ 225,396
Waukesha Water Utility's covered employee payroll	1,956,957	1,979,742
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.2%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

### SCHEDULE OF CONTRIBUTIONS Wisconsin Retirement System Last 10 Fiscal Years\*

*Changes of benefit terms:* There were no changes of benefit terms for any participating employer in WRS.

	2015	2016
Contractually required contributions	\$ 134,622	\$ 143,305
Contributions in relation to the contractually required contributions	134,622	143,305
Contributions deficiency (excess)	-	-
Waukesha Water Utility's covered-employee payroll	1,979,742	2,171,284
Contributions as a percentage of covered-employee payroll	6.8%	6.60%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.



## **WAUKESHA WATER UTILITY**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2016**

---

The utility is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

*Changes of benefit terms:* There were no changes of benefit terms for any participating employer in WRS.

*Changes of assumption:* There were no changes in the assumptions.

## **SUPPLEMENTAL INFORMATION**

# WAUKESHA WATER UTILITY

WATER UTILITY PLANT  
As of and for the Year Ended December 31, 2016

	Balance 1/1/16	Additions	Retirements	Balance 12/31/16
<b>INTANGIBLE</b>				
Miscellaneous intangible plant	\$ 184,896	\$ 2,592	\$ -	\$ 187,488
<b>SOURCE OF SUPPLY</b>				
Land and land rights	204,625	-	-	204,625
Wells and springs	1,507,630	-	-	1,507,630
Supply mains	1,084,143	-	-	1,084,143
Total Source of Supply	2,796,398	-	-	2,796,398
<b>PUMPING</b>				
Land and land rights	181,670	-	-	181,670
Structures and improvements	4,552,229	22,466	8,055	4,566,640
Electric pumping equipment	4,880,959	265,336	29,695	5,116,600
Total Pumping	9,614,858	287,802	37,750	9,864,910
<b>WATER TREATMENT</b>				
Structures and improvements	2,785,733	-	-	2,785,733
Water treatment equipment	2,427,926	20,358	-	2,448,284
Total Water Treatment	5,213,659	20,358	-	5,234,017
<b>TRANSMISSION AND DISTRIBUTION</b>				
Land and land rights	110,083	-	-	110,083
Distribution reservoirs and standpipes	6,457,909	19,157	7,350	6,469,716
Transmission and distribution mains	56,874,662	9,550,788	422,667	66,002,783
Services	11,751,788	948,300	78,576	12,621,512
Meters	4,195,350	106,289	125,027	4,176,612
Hydrants	5,836,875	611,817	50,516	6,398,176
Total Transmission and Distribution	85,226,667	11,236,351	684,136	95,778,882
<b>GENERAL</b>				
Land and land rights	69,180	-	-	69,180
Structures and improvements	1,674,268	594,073	55,715	2,212,626
Office furniture and equipment	183,794	-	-	183,794
Computer equipment	1,102,623	21,790	582,880	541,533
Transportation equipment	917,177	31,586	26,877	921,886
Stores equipment	9,764	-	-	9,764
Tools, shop and garage equipment	459,851	4,742	-	464,593
Laboratory equipment	5,842	-	-	5,842
Power-operated equipment	589,812	-	-	589,812
Communication equipment	64,714	-	-	64,714
SCADA equipment	796,917	77,086	10,794	863,209
Total General	5,873,942	729,277	676,266	5,926,953
<b>TOTAL WATER UTILITY PLANT</b>	<b>\$108,910,420</b>	<b>\$ 12,276,380</b>	<b>\$ 1,398,152</b>	<b>\$119,788,648</b>

# WAUKESHA WATER UTILITY

## WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Sales of Water		
Metered		
Residential	\$ 4,702,235	\$ 4,684,666
Multifamily residential	1,505,363	1,501,544
Commercial	1,449,676	1,444,971
Industrial	770,644	836,681
Public authorities	<u>308,065</u>	<u>352,975</u>
Total Metered Sales	8,735,983	8,820,837
Private fire protection	186,750	182,011
Public fire protection	<u>1,790,381</u>	<u>1,751,963</u>
Total Sales of Water	<u>10,713,114</u>	<u>10,754,811</u>
Other Operating Revenues		
Forfeited discounts	127,988	126,725
Rents from water property	271,405	203,495
Other	<u>99,874</u>	<u>150,082</u>
Total Operating Revenues	<u>11,212,381</u>	<u>11,235,113</u>
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	5,315	5,891
Miscellaneous	1,790	124
Rents	-	945,706
Maintenance		
Supervision and engineering	6,117	5,459
Wells and springs	<u>2,929</u>	<u>28</u>
Total Source of Supply	<u>16,151</u>	<u>957,208</u>
Pumping		
Operation supervision and engineering	33,434	33,703
Fuel or purchased power for pumping	732,299	754,859
Pumping labor	33,779	38,071
Miscellaneous	55,477	50,663
Maintenance		
Supervision and engineering	15,817	10,202
Structures and improvements	13,101	14,413
Pumping equipment	<u>42,591</u>	<u>29,835</u>
Total Pumping	<u>926,498</u>	<u>931,746</u>
Water Treatment		
Operation supervision and engineering	5,319	4,350
Chemicals	169,633	132,707
Operation labor	211,591	192,684
Miscellaneous	340	340
Maintenance		
Supervision and engineering	10,633	8,703
Structures and improvements	55	335
Water treatment equipment	<u>36,956</u>	<u>25,339</u>
Total Water Treatment	<u>434,527</u>	<u>364,458</u>

## WAUKESHA WATER UTILITY

### WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 33,591	\$ 43,997
Storage facilities	19,878	22,549
Transmission and distribution lines	139,207	106,448
Meters	64,726	64,743
Customer installations	52,699	45,511
Miscellaneous	102,418	111,640
Maintenance		
Supervision and engineering	53,438	40,171
Reservoirs and standpipes	517	13,782
Fire mains	236,378	231,949
Services	323,130	294,001
Meters	357	910
Hydrants	60,117	63,745
Miscellaneous	33,688	27,103
Total Transmission and Distribution	<u>1,120,144</u>	<u>1,066,549</u>
Customer Accounts		
Supervision	6,802	6,090
Meter reading	12,302	10,358
Accounting and collecting labor	112,708	114,103
Uncollectible accounts	1,696	7,390
Miscellaneous	4,247	11,777
Total Customer Accounts	<u>137,755</u>	<u>149,718</u>
Sales	<u>32,094</u>	<u>20,863</u>
Administrative and General		
Salaries	162,083	319,704
Office supplies	75,459	138,653
Outside services employed	114,335	156,190
Property insurance	72,222	74,410
Injuries and damages	21,466	19,630
Employee pensions and benefits	957,779	740,753
Regulatory commission	27,795	7,272
Miscellaneous	53,157	26,685
Maintenance	121,844	125,976
Total Administrative and General	<u>1,606,140</u>	<u>1,609,273</u>
Taxes	<u>117,482</u>	<u>95,660</u>
Total Operation and Maintenance	4,390,791	5,195,475
Depreciation	<u>2,342,983</u>	<u>2,335,822</u>
Total Operating Expenses	<u>6,733,774</u>	<u>7,531,297</u>
 OPERATING INCOME	 <u>\$ 4,478,607</u>	 <u>\$ 3,703,816</u>